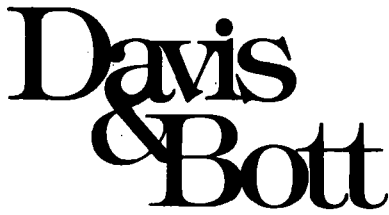


Honeyville City
June 30, 2006

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INDEPENDENT AUDITORS' REPORT

Certified Public Accountants, L.C.

547 South Main
P.O. Box 369
Brigham City, Utah 84302
435-723-5224

216 East Main
Tremonton, Utah 84337
435-257-5486

The Honorable Mayor and
Members of the City Council
Honeyville City
Honeyville, UT 84314

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Honeyville, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Honeyville, Utah. Our responsibility is to express opinions on these financial statements based on our audit.

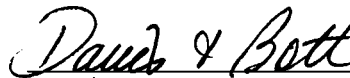
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Honeyville, Utah, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
Honeyville City

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, on our consideration of Honeyville, Utah's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and on pages 33 through 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Davis & Bott

Certified Public Accountants, L.C.

October 30, 2006

Honeyville City
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2006

As management of Honeyville, Utah, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- A. The assets of the City exceeded its liabilities at June 30, 2006, by \$1,630,102. Of this amount, unrestricted net assets of \$772,934 may be used to meet the City's ongoing obligations to citizens and creditors.
- B. The total net assets increased by \$110,520 over the prior fiscal year. The increase resulted primarily from revenues being greater than expenditures.
- C. As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$1,017,177, an increase of \$66,708 in comparison with the prior fiscal year. Of this amount, \$634,803 was unreserved and available for spending. The remaining \$382,373 has been reserved due to legal restrictions involving parties outside the financial reporting entity.
- D. At June 30, 2006, the unreserved fund balance for the general fund was \$8,683, or 3 percent of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and public improvements, and parks and recreation. The business-type activities of the City consist of culinary water.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions.

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and capital projects fund. Both are considered major funds.

The City adopts a one-year budget for its governmental funds. Budgetary comparison statements have been provided.

Proprietary Funds. The City maintains only one type of proprietary fund; namely, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the water utility fund.

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2006, the City's assets exceeded liabilities by \$1,630,102. The largest portion of the City's net assets (48 percent) reflects its investment in capital assets. Capital assets are used to provide services to citizens and they are not available for future spending.

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Other assets	\$ 750,877	\$663,805	\$139,641	\$ 60,418	\$ 890,518	\$ 724,223
Capital assets	<u>314,148</u>	<u>332,613</u>	<u>474,794</u>	<u>510,135</u>	<u>788,942</u>	<u>842,748</u>
Total assets	<u>1,065,025</u>	<u>996,418</u>	<u>614,435</u>	<u>570,553</u>	<u>1,679,460</u>	<u>1,566,971</u>
Other liabilities	<u>47,848</u>	<u>45,949</u>	<u>1,510</u>	<u>1,440</u>	<u>49,358</u>	<u>47,389</u>
Total liabilities	<u>47,848</u>	<u>45,949</u>	<u>1,510</u>	<u>1,440</u>	<u>49,358</u>	<u>47,389</u>
Net assets						
Investment in capital assets, net of related debt	314,148	332,613	474,794	510,135	788,942	842,748
Restricted	68,226	69,785	-	-	68,226	69,785
Unrestricted	<u>634,803</u>	<u>548,071</u>	<u>138,131</u>	<u>58,978</u>	<u>772,934</u>	<u>607,049</u>
Total net assets	<u>\$1,017,177</u>	<u>\$950,469</u>	<u>\$612,925</u>	<u>\$569,113</u>	<u>\$1,630,102</u>	<u>\$1,519,582</u>

The restricted portion of the net assets \$68,226 (4 percent) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets \$772,933 (47 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

At June 30, 2006, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its combined governmental and business-type activities.

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

Change in Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 70,006	\$ 47,073	\$112,045	\$104,374	\$ 182,051	\$ 151,447
Operating grants and contributions	103,017	75,511	54,765	39,305	157,782	114,816
Capital grants and contributions	-	4,700	-	-	-	4,700
General revenues:						
Property taxes	54,115	50,129	-	-	54,115	50,129
Other taxes	117,266	103,859	-	-	117,266	103,859
Other	26,159	13,338	3,492	751	29,651	14,089
Total revenues	<u>370,563</u>	<u>294,610</u>	<u>170,302</u>	<u>144,430</u>	<u>540,865</u>	<u>439,040</u>
Expenses:						
General government	127,727	89,878	-	-	127,727	89,878
Public safety	60,818	59,763	-	-	60,818	59,763
Highways and public works	87,510	29,880	-	-	87,510	29,880
Parks and recreation	27,800	22,428	-	-	27,800	22,428
Water utility	-	-	126,490	157,730	126,490	103,304
Total expenses	<u>303,855</u>	<u>201,949</u>	<u>126,490</u>	<u>157,730</u>	<u>430,345</u>	<u>305,253</u>
Increase (decrease) in net assets	66,708	92,661	43,812	(13,300)	110,520	79,361
Net assets beginning	<u>950,469</u>	<u>857,808</u>	<u>569,113</u>	<u>582,413</u>	<u>1,519,582</u>	<u>1,440,221</u>
Net assets ending	<u>\$ 1,017,177</u>	<u>\$ 950,469</u>	<u>\$ 612,925</u>	<u>\$ 569,113</u>	<u>\$ 1,630,102</u>	<u>\$ 1,519,582</u>

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

Governmental and Business-Type Activities. Governmental activities increased the City's net assets by \$66,708. When combined with the \$43,811 increase in net assets from business-type activities, overall net assets increased by \$110,520 or 7 percent.

The increase in governmental net assets is mainly due to capitalizing new fixed asset purchases. This was due to an increase in impact fees and a reduction in expenses.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Government Funds. The purpose of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the City's chief operating fund. At June 30, 2006, the unreserved fund balance of the general fund was \$8,683, which comprises 13 percent of the total fund balance. The remaining general fund balance of \$68,226 is restricted for B&C road uses. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved general fund balance represents 3 percent of total general fund expenditures. The fund balance of the City's general fund decreased by \$148,976 during the fiscal year ended June 30, 2006. This decrease was anticipated.

The capital projects fund increased mainly because of the \$220,000 transfer from the general fund for anticipated future projects.

The water utility fund's net assets increased by \$43,812. This was due to an increase in impact fees and a reduction in expenses.

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

GENERAL FUND BUDGETARY HIGHLIGHTS

The original submitted budget for fiscal year 2006 was modified to reflect increased expenses in two budget categories. The City increased general government by \$15,000. The City also increased the highways and public improvements budget by \$5,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities at June 30, 2006, amounted to \$788,942 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, service lines, equipment, roads and similar infrastructure. The total decrease in the City's investment in capital assets for the fiscal year ended June 30, 2006, was \$53,806 (a decrease of 6 percent for governmental activities and a decrease of 7 percent for business-type activities). The decrease in governmental capital assets was due to annual depreciation and removal of some equipment. The decrease in business-type activities was due to annual depreciation.

Capital Assets
(Net of Depreciation)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 12,900	\$ 12,900	\$ -	\$ -	\$ 12,900	\$ 12,900
Buildings and improvements	105,964	113,760	456,396	480,751	562,360	594,511
Infrastructure	12,559	13,284	-	-	12,559	13,284
Machinery and equipment	<u>182,725</u>	<u>192,669</u>	<u>18,398</u>	<u>29,384</u>	<u>201,123</u>	<u>222,053</u>
Net capital assets	<u>\$ 314,148</u>	<u>\$ 332,613</u>	<u>\$ 474,794</u>	<u>\$ 510,135</u>	<u>\$ 788,942</u>	<u>\$ 842,748</u>

Additional information on the City's capital assets can be found in Note 3 on pages 29 and 30 of this report.

See Independent Auditors' Report

Honeyville City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Honeyville, Utah, has continued to experience growth and is in the process of negotiations with the State of Utah Division of Wildlife Services to build a new water reservoir. The Division owns a piece of property to be used for wildlife, not commercial, purposes. Through negotiations, it is anticipated the City will be allowed to build a one million gallon reservoir on the Division of Wildlife Resources land in exchange for the City building a watering trough or pond for wildlife. It is anticipated the monthly water rates will be increased in order to assist in servicing the debt that will be incurred in building the water reservoir.

The City has also budgeted to install and 8" water line on Call's Fort Road from 6900 North to 7275 North, which is about 4,000 ft. of pipe. This project will also include the installation of fire hydrants.

The City will be conducting a feasibility study about the possibility of acquiring the old Honeyville school building and convert it into a community center.

See Independent Auditors' Report

Honeyville City
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 666,019	\$139,641	\$ 805,660
Accounts receivable - net			-
Intergovernmental receivables			
Property taxes	45,203		45,203
Sales taxes	23,769		23,769
Class "C" road funds	14,907		14,907
Capital assets (net of accumulated depreciation):			
Land	12,900	-	12,900
Buildings and improvements	105,964	456,396	562,360
Infrastructure	12,559	-	12,559
Equipment	182,725	18,398	201,123
Other assets	979	-	979
Total assets	1,065,025	614,435	1,679,460
LIABILITIES			
Accounts payable and accrued liabilities	3,615	1,510	5,125
Deferred revenue	44,233	-	44,233
Total liabilities	47,848	1,510	49,358
NET ASSETS			
Invested in capital assets, net of related debt	314,148	474,794	788,942
Restricted - Class "C" roads	68,226	-	68,226
Unrestricted	634,803	138,131	772,934
Total net assets	\$1,017,177	\$612,925	\$1,630,102

The accompanying notes are an integral part of these statements.

Honeyville City Statement of Activities For the Year Ended June 30, 2006

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating		Governmental Activities	Business-Type Activities	Total
		Grants and Contributions	Capital Grants and Contributions			
Governmental activities:	Expenses					
General government	\$127,727	\$ 55,852	\$ -	\$ (71,875)	\$ -	\$ (71,875)
Public safety	60,818	13,272	-	(42,945)	-	(42,945)
Highways and public works	87,510	-	72,007	(15,503)	-	(15,503)
Parks and recreation/ cemetery	27,800	5,682	21,609	(509)	-	(509)
	303,855	74,806	98,217	(130,832)	-	(130,832)
Business-type activities:						
Water utility	126,490	112,045	54,765	-	40,320	40,320
	126,490	112,045	54,765	-	40,320	40,320
Total primary government activities	\$430,345	\$186,851	\$152,982	(130,832)	40,320	(90,512)
General revenues:						
Taxes:						
Property taxes				54,115	-	54,115
General sales and use taxes				115,550	-	115,550
Other taxes				1,716	-	1,716
Unrestricted investment earnings				26,159	3,492	29,651
Total general revenues				197,540	3,492	201,032
Change in net assets				66,708	43,812	110,520
Net assets beginning				950,469	569,113	1,519,582
Net assets ending				\$1,017,177	\$612,925	\$1,630,102

The accompanying notes are an integral part of these statements.

Honeyville City
Balance Sheet - Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 54,812	\$ 611,207	\$ 666,019
Receivables, net			
Property tax	45,203	-	45,203
Sales tax	23,769	-	23,769
Intergovernmental	14,907	-	14,907
Other assets	<u>979</u>	<u>-</u>	<u>979</u>
 Total assets	 <u>\$ 139,670</u>	 <u>\$ 611,207</u>	 <u>\$ 750,877</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 3,615	\$ -	\$ 3,615
Deferred revenue	<u>59,146</u>	<u>-</u>	<u>59,146</u>
 Total liabilities	 <u>62,761</u>	 <u>-</u>	 <u>62,761</u>
 Fund balance:			
Reserved for:			
Class "C" roads	68,226	-	68,226
Unreserved	<u>8,683</u>	<u>611,207</u>	<u>619,890</u>
 Total fund balance	 <u>76,909</u>	 <u>611,207</u>	 <u>688,116</u>
 Total liabilities and fund balances	 <u>\$ 139,670</u>	 <u>\$ 611,207</u>	 <u>\$ 750,877</u>

The accompanying notes are an integral part of these statements.

Honeyville City
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2006

Total fund balance - governmental fund types \$ 688,116

Amounts reported for governmental activities
in the statement of net assets are different
because:

Capital assets used in governmental
activities are not financial resources
and, therefore, are not reported in the
funds. 314,148

Revenues not considered available are
deferred in the funds. These include
\$14,913 in sales and use tax. 14,913

Net assets of governmental activities \$ 1,017,177

The accompanying notes are an integral part of these statements.

Honeyville City
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Taxes:			
Property	\$ 54,115	\$ -	\$ 54,115
Sales and use	112,426	-	112,426
Other	1,716	-	1,716
Licenses and permits	47,953	-	47,953
Intergovernmental	72,007	-	72,007
Charges for services	31,257	-	31,257
Impact fees	10,784	-	10,784
Earnings on investments	10,077	16,082	26,159
Grants received	9,401	-	9,401
Miscellaneous	1,621	-	1,621
Total revenues	<u>351,357</u>	<u>16,082</u>	<u>367,439</u>
Expenditures:			
Current:			
General government	117,323	-	117,323
Public safety	49,411	-	49,411
Highways and public works	85,325	-	85,325
Parks and recreation	12,197	-	12,197
Cemetery	16,077	-	16,077
Capital outlay	-	5,057	5,057
Total expenditures	<u>280,333</u>	<u>5,057</u>	<u>285,390</u>
Excess (deficiency) of revenues over expenditures	71,024	11,025	82,049
Other financing sources (uses):			
Transfers out	(220,000)	-	(220,000)
Transfers in	<u>-</u>	<u>220,000</u>	<u>220,000</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(148,976)	231,025	82,049
Fund balance beginning	<u>225,885</u>	<u>380,182</u>	<u>606,067</u>
Fund balance ending	<u>\$ 76,909</u>	<u>\$ 611,207</u>	<u>\$ 688,116</u>

The accompanying notes are an integral part of these statements.

Honeyville City
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities
in the statement of activities are
different because:

Net changes in fund balances - total governmental funds	\$ 82,049
--	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(18,465)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	<u>3,124</u>
--	--------------

Change in net assets of governmental activities	<u><u>\$ 66,708</u></u>
--	-------------------------

The accompanying notes are an integral part of these statements.

Honeyville City
Statement of Net Assets - Proprietary Fund
June 30, 2006

	Enterprise Fund <u>Water Utility</u>
ASSETS	
Current assets:	
Cash and investments	\$ 123,533
Receivables, net	<u>16,108</u>
Total current assets	<u>139,641</u>
Noncurrent assets:	
Capital assets:	
Water system, net	456,396
Equipment, net	<u>18,398</u>
Total noncurrent assets	<u>474,794</u>
Total assets	<u>614,435</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>1,510</u>
Total liabilities	<u>1,510</u>
NET ASSETS	
Investment in capital assets, net of related debt	474,794
Unrestricted	<u>138,131</u>
Total net assets	<u>\$ 612,925</u>

The accompanying notes are an integral part of these statements.

Honeyville City
Statement of Revenues, Expenses and Changes in
Net Assets - Proprietary Fund
For the Year Ended June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
OPERATING REVENUES	
Charges for services	\$ 112,045
Connection fees	<u>1,789</u>
Total operating revenues	<u>113,834</u>
OPERATING EXPENSES	
Wages and benefits	22,607
Fees and services	28,582
Materials and supplies	30,020
Utilities	9,940
Depreciation	<u>35,341</u>
Total operating expenses	<u>126,490</u>
Operating income (loss)	(12,656)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	3,492
Impact fees	<u>52,976</u>
Total nonoperating revenues	<u>56,468</u>
Change in net assets	43,812
Total net assets beginning	<u>569,113</u>
Total net assets ending	<u>\$ 612,925</u>

The accompanying notes are an integral part of these statements.

Honeyville City
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
Cash flows from operating activities:	
Receipts from customers	\$ 113,939
Payments to suppliers	(68,472)
Payments to employees	<u>(22,607)</u>
Net cash provided by (used in) operating activities	<u>22,860</u>
Cash flows from capital and related financing activities:	
Capital contributions	<u>52,975</u>
Net cash provided by (used in) capital and related financing activities	<u>52,975</u>
Cash flows from investing activities:	
Interest and dividends received	<u>3,492</u>
Net cash provided by (used in) investing activities	<u>3,492</u>
Net increase (decrease) in cash and cash equivalents	79,327
Balance beginning	<u>44,206</u>
Balance ending	<u>\$ 123,533</u>

The accompanying notes are an integral part of these statements.

Honeyville City
Statement of Cash Flows - Proprietary Fund (Continued)
For the Year Ended June 30, 2006

	<u>Enterprise Fund</u> <u>Water Utility</u>
Reconciliation of operating income	
(loss) to net cash provided by	
(used in) operating activities:	
Operating income (loss)	\$ (12,656)
Adjustments to reconcile operating	
income to net cash provided by	
(used in) operating activities:	
Depreciation expense	35,341
Change in assets and liabilities:	
Receivables, net	105
Accounts payable	<u>70</u>
Net cash provided by (used in)	
operating activities	\$ <u>22,860</u>

The accompanying notes are an integral part of these statements.

Honeyville City
Notes to Financial Statements
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Honeyville, Utah, is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the financial condition of the government. Honeyville, Utah, is not a component unit of any other entity, nor does it have any component units for which the government would be considered financially accountable.

B. Government-Wide and Fund Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment.

Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. All individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statement, rather than reported as expenditures.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The government has the following fund types:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 30 days after year end. The City considers Class "C" road money to be available if collected within 60 days. Expenditures are recorded when the related fund liability is incurred.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds include the following fund types:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **capital projects funds** account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers to the system.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations financed and operated in a manner similar to private business or where the City has decided the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City has only one proprietary fund, the water utility fund, which delivers culinary water to citizens of the City.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

i. *Cash and Investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with the original maturities of three months or less from the date of acquisition. Currently, the only investing is done with the State Treasurer's Investment Pool.

ii. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds" if they are not projected to be repaid within one year, and as "interfund receivable/payable" for amounts projected to be repaid within one year.

iii. *Capital Assets*

Capital assets used in governmental-fund type operations are accounted for in the governmental activities column in the statement of net assets, but not in governmental funds. Governmental capital assets consisting of certain improvements other than buildings, including roads, bridges, streets, drainage systems and lighting system placed in service prior to June 30, 2003, have not been capitalized.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Individual items with a cost of \$2,500 or greater are capitalized.

D. Assets, Liabilities and Equity (Continued)

Depreciation of all exhaustible capital assets is charged as an expense against its operations in the government-wide financial statements and the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide and proprietary fund statements of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements..	20 - 40 years
Water system.....	40 years
Equipment.....	3 - 15 years
Infrastructure.....	20 years

E. Budget and Budgetary Accounting

The City follows the budget and budgetary accounting procedures established by Utah law and described in the Uniform Accounting Manual for Utah Cities and Citys. The current year budget was amended according to Utah law.

NOTE 2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state, and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the deposit of the City's funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

A. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, the City's carrying amount of deposits was \$80,411 and the bank balance was \$112,207. Of the bank balance, \$100,000 was covered by federal depository insurance and \$12,207 was uncollateralized.

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City's funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers or directly with issuers of the investment securities.

These statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurer's Investment Fund.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF, and details the types of authorized investments.

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses - net of administration fees - of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, the City had the following investments and maturities:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$709,141	\$709,141			

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations to 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act, as previously discussed.

At June 30, 2006, the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	<u>\$709,141</u>				<u>\$709,141</u>

E. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council, as applicable.

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2006:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 12,900	\$ -	\$ -	\$ 12,900
Capital assets being depreciated:				
Infrastructure	14,492	-	-	14,492
Buildings and improvements	175,870	-		175,870
Machinery and equipment	<u>296,901</u>	<u>9,400</u>	<u>4,600</u>	<u>301,701</u>
Total at historical cost	<u>500,163</u>	<u>9,400</u>	<u>4,600</u>	<u>504,963</u>
Less accumulated depreciation for:				
Infrastructure	1,208	725	-	1,933
Buildings and improvements	62,111	7,795		69,906
Machinery and equipment	<u>104,231</u>	<u>16,432</u>	<u>1,687</u>	<u>118,976</u>
Total accumulated depreciation	<u>167,550</u>	<u>24,952</u>	<u>1,687</u>	<u>190,815</u>
Governmental activities capital assets - net	<u>\$ 332,613</u>	<u>\$(15,552)</u>	<u>\$ 2,913</u>	<u>\$ 314,148</u>

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 3. CAPITAL ASSETS (Continued)

Business-Type Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Water system	\$1,712,358	\$ -	\$ -	\$1,712,358
Machinery and equipment	<u>91,471</u>	<u>-</u>	<u>-</u>	<u>91,471</u>
Total at historical cost	<u>1,803,829</u>	<u>-</u>	<u>-</u>	<u>1,803,829</u>
Less accumulated depreciation for:				
Water system	1,231,607	24,354		1,255,961
Machinery and equipment	<u>62,087</u>	<u>10,987</u>	<u>-</u>	<u>73,074</u>
Total accumulated depreciation	<u>1,293,694</u>	<u>35,341</u>	<u>-</u>	<u>1,329,035</u>
Business-type activities capital assets - net	<u>\$ 510,135</u>	<u>\$(35,341)</u>	<u>\$ -</u>	<u>\$ 474,794</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 7,491
Public safety	11,407
Highways and public improvements	2,185
Parks and recreation	<u>3,869</u>
Total depreciation expense governmental activities	<u>\$ 24,952</u>

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 4. PROPERTY TAX

Property taxes attached as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. Property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB. Property taxes received within thirty (30) days of year end are recognized as revenue at year end.

NOTE 5. RISK MANAGEMENT

Honeyville, Utah, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. All general liability, real property, all vehicles, including heavy equipment, and injuries to employees are insured through a commercial policy (errors and omissions). Settled claims have not exceeded the City's insurance coverage for any of the past three years. For insured programs, there have been no significant reductions in insurance coverage.

NOTE 6. RESTRICTED NET ASSETS

Net assets have been restricted for Class "C" road purposes. The amount represents funds received from the State of Utah Road Fund allotment to be used for future maintenance of the City's road network.

NOTE 7. INTERFUND TRANSFERS

Interfund transfers for the fiscal year ending June 30, 2006, consisted of the following:

Transferor <u>Fund</u>	Transferee <u>Fund</u>	<u>Amount</u>
General fund	Capital projects fund	\$ <u>220,000</u>

See Independent Auditors' Report

Honeyville City
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 7. INTERFUND TRANSFERS (Continued)

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or fund requires to expend them; 2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in accordance with budgetary authorizations.

In the fiscal year ended June 30, 2006, the City made a one-time transfer of \$220,000 from the general fund to the capital projects fund to provide funding for future capital acquisitions and projects.

NOTE 8. OPERATING LEASE

The City leases a backhoe on an annual, noncancelable operating lease. The yearly lease payment is \$3,175. The City returns the backhoe at the end of the lease period and negotiates a new lease annually each fiscal year.

See Independent Auditors' Report

Required Supplementary Information

Honeyville City
Statement of Revenues, Expenditures and
Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2006

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$137,480	\$137,480	\$168,257	30,777
Licenses and permits	31,500	31,500	47,953	16,453
Intergovernmental	70,700	70,700	72,007	1,307
Charges for services	12,220	12,220	31,257	19,037
Impact fees	-	-	10,784	10,784
Earnings on investments	8,600	8,600	10,077	1,477
Grants received	-	-	9,401	9,401
Miscellaneous	<u>600</u>	<u>600</u>	<u>1,621</u>	<u>1,021</u>
Total revenues	261,100	261,100	351,357	90,257
Expenditures:				
General government	85,600	100,600	117,323	(16,723)
Public safety	49,500	49,500	49,411	89
Highways and public improvements	83,500	88,500	85,325	3,175
Parks and recreation	<u>42,500</u>	<u>42,500</u>	<u>28,274</u>	<u>14,226</u>
Total expenditures	261,100	281,100	280,333	767
Excess (deficiency) of revenues over expenditures	-	(20,000)	71,024	91,024
Fund balance beginning	<u>225,885</u>	<u>225,885</u>	<u>225,885</u>	-
Fund balance ending	<u>\$225,885</u>	<u>\$205,885</u>	<u>\$296,909</u>	<u>\$ 91,024</u>

See Independent Auditors' Report

Snowville Town
Note to Budgetary Comparison Schedule
June 30, 2006

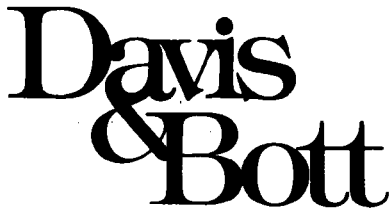
The General Government Department of the general fund had expenditures in excess of budget of \$16,723 for the year ended June 30, 2006. This is a violation of state law.

See Accountants' Report

Honeyville City
Impact Fee Analysis (Unaudited)

	General Fund Parks and <u>Recreation</u>	Water <u>Fund</u>
Impact fees received (June 30):		
2002	\$ 674	\$ -
2003	3,370	11,352
2004	6,066	41,624
2005	6,066	37,840
2006	<u>10,784</u>	<u>52,976</u>
Total impact fees received	<u>26,960</u>	<u>143,792</u>
Qualifying projects (June 30):		
2002	-	-
2003	7,930	324,814
2004	12,226	19,995
2005	4,340	45,314
2006	<u>5,266</u>	<u>26,347</u>
Total qualifying projects	<u>29,762</u>	<u>416,470</u>
Balance of impact fees received in excess of qualifying projects at June 30, 2006	<u>\$ (2,802)</u>	<u>\$ (272,678)</u>

See Independent Auditors' Report



Certified Public Accountants, L.C.

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435-723-5224

216 East Main
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
Honeyville City
Honeyville, UT 84314

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Honeyville, Utah, as of and for the year ended June 30, 2006, which collectively comprise Honeyville, Utah's, basic financial statements and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Honeyville, Utah's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honeyville City
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed In Accordance With
Governmental Auditing Standards
Page Two

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Honeyville, Utah, in a separate letter dated October 30, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Honeyville, Utah's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

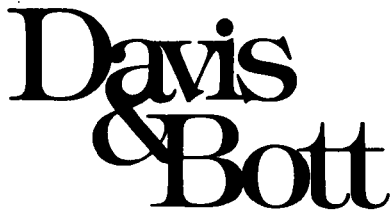
However, we noted certain immaterial instances of noncompliance or other matters that we have reported to the management of Honeyville, Utah, in a separate letter dated October 30, 2006.

This report is intended solely for the information and use of management, the City Council, and the various state funding and auditing agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



Davis & Bott
Certified Public Accountants, L.C.

Brigham City, Utah
October 30, 2006



Certified Public Accountants, L.C.

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AUDITORS' REPORT ON STATE OF UTAH LEGAL COMPLIANCE

The Honorable Mayor and
Members of the City Council
Honeyville City
Honeyville, UT 84314

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Honeyville, Utah, for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. As part of our audit, we have audited the City of Honeyville's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major assistance programs from the State of Utah:

- * B & C road funds (Utah Department of Transportation)
- * Liquor law enforcement (State Tax Commission)

The City also received the following nonmajor grants, which were not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

- * Fire Department Grant (Department of Natural Resources)
- * Cemetery History Grant (Division of State History)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- * Public debt
- * Cash management
- * Purchasing requirements
- * Budgetary compliance
- * Truth in Taxation & Property Tax Limitations

Honeyville City
Auditors' Report on State of Utah
Legal Compliance
Page Two

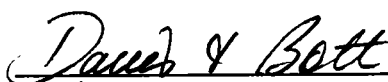
- * Liquor law enforcement
- * B & C road funds
- * Other general compliance issues
- * Uniform building code standards
- * Impact fees and other development fees

The management of Honeyville, Utah, is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter of recommendations. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Honeyville, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.



Davis & Bott

Certified Public Accountants, L.C.

Brigham City, Utah
October 30, 2006

Davis & Bott

Certified Public Accountants, L.C.

547 South Main
P.O. Box 369
Brigham City, Utah 84302
435-723-5224

216 East Main
Tremonton, Utah 84337
435-257-5486

The Honorable Mayor and
Members of the Honeyville City Council
Honeyville, UT 84314

We have audited the financial statements of Honeyville, Utah, for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Honeyville City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Honeyville City taken as a whole.

However, our study and evaluation disclosed the following reportable or agreed-upon conditions that we believe result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Honeyville City may occur and not be detected within a timely period.

CURRENT YEAR RECOMMENDATIONS:

1. BUDGETING:

Issue - One department (general government) in the general fund had expenditures in excess of budget.

Recommendation - We recommend expenditures be monitored closely and the proper budgeting procedures for transactions be followed.

Response - This recommendation will be implemented.

2. PURCHASING POLICY

Issue - Honeyville City has adopted a purchasing policy as required by law. The policy requires purchase orders be used in excess of \$50. Bidding is also required on purchases in excess of \$3,000.

Recommendation - The purchasing policy is currently not being followed so either the policy should be changed to match what is actually happening or the current purchasing policy should be followed.

Response - This recommendation will be implemented.

3. CHECK NUMBERS

Issue - The check number in QuickBooks does not always match the actual check number on issued checks. It also appeared check numbers were not always used in sequence.

Recommendation - We recommend the City develop a procedure or report to verify that QuickBooks and actual check numbers are the same, and use one sequence for the checks.

Response - This recommendation will be implemented.

CURRENT YEAR RECOMMENDATIONS (Continued):

4. SIGNING CHECKS

Issue - Checks are not always signed twice before being issued.

Recommendation - Before checks are sent to the vendor, someone should verify they are signed by two authorized signers.

Response - This recommendation will be implemented.

5. CHART OF ACCOUNTS

Issue - The current chart of accounts does not include a general fund account for wages. Wages are put into other areas such as general government buildings.

Recommendation - We recommend a new account be added to the chart of accounts to accumulate wages of the general fund.

Response - This recommendation will be implemented.

6. BANK RECONCILIATION

Issue - There are a few items on the bank reconciliation that are about a year old.

Recommendation - We recommend that in reconciling the bank, old items be researched and taken care of. The most common is outstanding checks, which after a year should be sent to the State of Utah Division of Unclaimed Property.

Response - This recommendation will be implemented.

PRIOR YEAR RECOMMENDATIONS:

1. EXCESSIVE FUND BALANCE

Issue - For the year ended June 30, 2005, the general fund had a fund balance in excess of the amount allowed by state law.

Recommendation - We recommended the City review the limits for fund balances (i.e., not in excess of 18 percent of total estimated revenue) and make necessary adjustments to comply with the requirements.

PRIOR YEAR RECOMMENDATIONS (Continued):

Response - The City has future projects they anticipate will use the excess fund balance.

Current Status - This recommendation has been implemented. The City transferred \$220,000 to the capital projects fund for capital improvements and the fund balance is currently within the limits allowed by state law.

2. SEGREGATION OF DUTIES

Issue - Honeyville, Utah, has insufficient segregation of duties due to the small size of the entity.

Recommendation - We recommended the City look at the cost versus the benefit of improving the segregation of duties.

Response - Honeyville, Utah, has a city clerk and a treasurer. They try to segregate duties as much as possible between the two employees. The City feels the additional cost involved to completely segregate duties is not feasible for the benefit they would receive. They feel their current procedures are adequate to safeguard assets.

Current Status - Segregation of duties remains insufficient due to the size of the City.

3. TIMELY DEPOSITS

Issue - The City is not following the cash management procedures of making deposits at least every three days.

Recommendation - We recommended the City deposit within the three-day period.

Response - The City will implement this recommendation.

Current Status - There has been a great deal of improvement in this area but some deposits are still deposited after three working days.

PRIOR YEAR RECOMMENDATIONS (Continued):

4. BONDING

Issue - The City treasurer is not adequately bonded in accordance with State of Utah law.

Recommendation - We recommended the City take the necessary steps to increase bonding of the treasurer.

Response - The City will increase the amount of the treasurer's bond.

Current Status - The recommendation has been implemented.

CONCLUSION

The matters discussed herein have been brought to the attention of responsible City personnel during the course of our examination. As a result, many of these recommendations are either being implemented or are under consideration at the time of issuance of this letter.

We wish to take this opportunity to express our thanks and appreciation for the courtesy and assistance extended to us by your personnel during our audit work.

We welcome the opportunity to discuss further any points mentioned herein. We feel that proper implementation of these suggestions will improve internal controls and protect the City's assets.

Davis & Bott
Certified Public Accountants, L.C.

October 30, 2006
Brigham City, Utah

Honeyville City
Balance Sheet
As of June 30, 2006

ASSETS	Trial Balance Adjustments			Adjustments to Government					Wide Financial Statements			Final TB		
	June 30, 2006	PALEF	Debit	Credit	Final TB June 30, 2006	Water Fund	General Fund	Capital Projects Fund	PROOF Column	GWALF#	Debit	Credit	Final TB June 30, 2006	
Current Assets														
Checking/Savings														
Bank of Utah	80,411.41				80,411.41		63,525.46	9,512.65	7,373.30				80,411.41	
First Security Bank	317.00	2		317.00	0.00								0.00	
Utah St Treasurer Pool-281	709,139.60	14	19,574.00	19,573.00	709,140.60	60,007.90	40,242.00	608,890.70	709,140.60				709,140.60	
Total Checking/Savings	789,668.01				789,552.01	123,533.36	49,754.65	616,264.00	789,552.01				789,552.01	
Accounts Receivable														
Less Allow for Dblt Accts	4,297.11	3	12,056.31		16,353.42	16,353.42			16,353.42				16,353.42	
Net Water AIR	-166.58	4	166.58	245.30	-245.30	-245.30			-245.30				-245.30	
Sales & Use Tax Receivable	4,130.53				16,108.12	16,108.12	0.00	0.00	16,108.12				16,108.12	
Property Tax Receivable	0.00	6.7	23,769.04		23,769.04		23,769.04		23,769.04				23,769.04	
B&C Road Receivable	0.00	6.7	45,202.56		45,202.56		45,202.56		45,202.56				45,202.56	
Total Accounts Receivable	0.00	8	14,906.91		14,906.91		14,906.91		14,906.91				14,906.91	
Other Current Assets	4,130.53				99,986.63	16,108.12	83,878.51	0.00	99,986.63				99,986.63	
Prepaid assets	0.00	12	529.17		529.17		529.17		529.17				529.17	
Undeposited Funds	695.58	5		695.58	0.00		0.00		0.00				0.00	
Total Other Current Assets	695.58				529.17	0.00	529.17	0.00	529.17				529.17	
Total Current Assets	794,694.12				890,067.81	139,641.48	134,162.33	616,264.00	890,067.81				890,067.81	
Fixed Assets														
General Fixed Assets														
Buildings & Improvements	175,870.11				175,870.11		175,870.11		175,870.11				175,870.11	
Furniture & Equipment	296,900.75				296,900.75		296,900.75		296,900.75				301,700.75	
Infrastructure	14,491.50				14,491.50		14,491.50		14,491.50				14,491.50	
Land	12,900.00				12,900.00		12,900.00		12,900.00				12,900.00	
Accumulated Depreciation	-167,549.37				-167,549.37		-167,549.37		-167,549.37				-190,814.62	
Total General Fixed Assets	332,612.99				332,612.99	0.00	332,612.99	0.00	332,612.99				314,147.74	
Water Fixed Assets														
Water System	1,712,358.00				1,712,358.00		1,712,358.00		1,712,358.00				1,712,358.00	
Furniture & Equipment	91,471.00				91,471.00		91,471.00		91,471.00				91,471.00	
Land	0.00				0.00		0.00		0.00				0.00	
Accumulated Depreciation	-1,293,693.95	10	35,341.09		-1,329,035.04	-1,329,035.04			-1,329,035.04				-1,329,035.04	
Other Assets	510,135.05				474,793.96	474,793.96	0.00	0.00	474,793.96				474,793.96	
General Fund - 15 Shares BR Canal Co.	450.00				450.00		450.00		450.00				450.00	
Total Other Assets	450.00				450.00	0.00	450.00	0.00	450.00				450.00	
TOTAL ASSETS	1,637,992.16				1,697,924.76	614,435.44	467,225.32	616,264.00	1,697,924.76				1,679,459.51	

Honeyville City
Balance Sheet
As of June 30, 2005

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

General A/P

Water Fund A/P

Total Accounts Payable

Other Current Liabilities

Deferred revenue

Accrued Expense - General

Accrued Expense - Water

Payroll Liabilities

Total Other Current Liabilities

Total Current Liabilities

Total Liabilities

Equity

Water Equity

Contributed Capital

Unreserved Retained Earnings

Total Water Equity

Investment in gen fixed assets

Fund Balances

Unreserved General

Unreserved - Capital Projects

Reserved for Class C Roads

Unreserved

Total Fund Balances

Net Income

Total Equity

TOTAL LIABILITIES & EQUITY

Total Balance Adjustments

Final TB

June 30, 2005

Water Fund

General Fund

Capital Projects Fund

PROOF

Column

Wide Financial Statements

GWAJEF

Debit

Credit

Final TB

June 30, 2005

	June 30, 2005	PAJEF	Debit	Credit	Final TB	June 30, 2005	Water Fund	General Fund	Capital Projects Fund	PROOF	Column	Wide Financial Statements	Final TB	June 30, 2005
Accounts Payable														
General A/P	0.00	11, 13, 15			3,614.77	3,614.77	1,510.15	3,614.77		3,614.77	3,614.77		3,614.77	
Water Fund A/P	0.00	11, 13			1,510.15	1,510.15	1,510.15			1,510.15	1,510.15		1,510.15	
Total Accounts Payable	0.00				5,124.92	5,124.92	1,510.15	3,614.77	0.00	5,124.92	5,124.92		5,124.92	
Other Current Liabilities														
Deferred revenue	0.00	7			59,146.28	59,146.28		59,146.28		59,146.28	59,146.28	53	14,913.28	
Accrued Expense - General	0.00				0.00	0.00		0.00		0.00	0.00		0.00	
Accrued Expense - Water	0.00				0.00	0.00		0.00		0.00	0.00		0.00	
Payroll Liabilities	0.00				0.00	0.00		0.00		0.00	0.00		0.00	
Total Other Current Liabilities	0.00				59,146.28	59,146.28	0.00	59,146.28	0.00	59,146.28	59,146.28		44,233.00	
Total Current Liabilities	0.00				64,271.20	64,271.20	1,510.15	62,761.05	0.00	64,271.20	64,271.20		44,233.00	
Total Liabilities	0.00				64,271.20	64,271.20	1,510.15	62,761.05	0.00	64,271.20	64,271.20		49,357.92	
Equity														
Water Equity														
Contributed Capital	72,135.00	21			94,319.10	94,319.10	94,319.10			94,319.10	94,319.10		94,319.10	
Unreserved Retained Earnings	496,978.06	21	22,184.10		474,793.96	474,793.96				474,793.96	474,793.96		474,793.96	
Total Water Equity	569,113.06				569,113.06	569,113.06	0.00	0.00	0.00	569,113.06	569,113.06		569,113.06	
Investment in gen fixed assets	332,612.99				332,612.99	332,612.99	332,612.99			332,612.99	332,612.99	52, 50, 51	27,865.25	
Fund Balances														
Unreserved General	158,669.03	20	1,009.59		157,669.44	157,669.44	157,669.44			157,669.44	157,669.44	51, 50, 53, 52	9,400.00	
Unreserved - Capital Projects	380,182.00				380,182.00	380,182.00	380,182.00			380,182.00	380,182.00		39,654.34	
Reserved for Class C Roads	67,215.91	20	1,009.59		68,225.50	68,225.50	68,225.50			68,225.50	68,225.50		380,182.00	
Unreserved					0.00	0.00				0.00	0.00		88,225.50	
Total Fund Balances	606,066.94				606,066.94	606,066.94	225,894.94	380,182.00	0.00	606,066.94	606,066.94		0.00	
Net Income	130,099.17				125,857.57	125,857.57	43,812.23	-154,036.66	236,082.00	125,857.57	125,857.57		636,321.28	
Total Equity	1,637,892.16				1,633,650.56	1,633,650.56	612,925.29	404,461.27	616,264.00	1,633,650.56	1,633,650.56		1,105,161.51	
TOTAL LIABILITIES & EQUITY	1,637,892.16				1,687,921.76	1,687,921.76	614,435.44	467,222.32	616,264.00	1,687,921.76	1,687,921.76		1,630,098.59	
													1,679,456.51	

Honeyville City
Balance Sheet
As of June 30, 2005

Income	Trial Balance Adjustments		Final TB June 30, 2006	Water Fund	General Fund	Capital Projects Fund	PROOF Column	Wide Financial Statements		Final TB June 30, 2006
	June 30, 2005	PA/LE# Debit Credit						GVA/LE# Debit Credit		
Water Fund Revenue										
6010 Charges for Services	100,694.55	3.5	695.58	12,045.31	112,045.28	112,045.28	112,045.28			112,045.28 II 1.1
6020 Connection Fees	8,943.00	17	7,568.00		1,375.00	1,375.00	1,375.00			1,375.00 II 4.2
6030 Interest Earned	0.00	14		3,492.00	3,492.00	3,492.00	3,492.00			3,492.00 II 9
6040 Other Revenue (Impact)	30,272.00	17	30,272.00		0.00	0.00	0.00			0.00 II 5
6050 Water Impact Fees	15,550.00	17		53,390.00	53,390.00	53,390.00	53,390.00			53,390.00 II 4.1
Total Water Operating Revenue	155,449.55			170,302.28	170,302.28	0.00	170,302.28			170,302.28
Taxes										
3110 General Property Taxes	53,145.93	6	969.56	54,115.49	54,115.49		54,115.49			54,115.49 I 1.1
3130 General Sales & Use Taxes	103,570.43	6	8,855.76	112,426.19	112,426.19		112,426.19	53	11,799.09	115,550.38 I 3.1
3140 Franchise Taxes	1,716.40			1,716.40	1,716.40		1,716.40			1,716.40 I 4.2
Total Taxes	158,432.76			168,258.08	168,258.08	0.00	168,258.08			171,382.27
Licenses and Permits Income										
3210 Business Licenses/Permits	1,533.75			1,533.75	1,533.75		1,533.75			1,533.75 I 5.1
3221 Building, Structures Etc.	54,909.80	16	10,784.00	44,125.80	44,125.80		44,125.80			44,125.80 I 5.2
3225 Animal Licenses/Fees/Fines	2,285.45			2,285.45	2,285.45		2,285.45			2,285.45 I 5.3
3230 Other Licenses & Permits	8.00			8.00	8.00		8.00			8.00 I 5.4
3235 Park Impact fees	0.00	16		10,784.00	10,784.00		10,784.00			10,784.00 II 4.1
Total Licenses and Permits Income	58,737.00			58,737.00	58,737.00	0.00	58,737.00			58,737.00 II 4.1
Intergovernmental Revenue										
3340 State Grants	0.00			0.00	0.00		0.00			0.00
3356 Class "C" Road Funds	56,308.64	8	14,908.91	71,215.55	71,215.55		71,215.55			71,215.55 II 3.1
3358 Liquor Fund Allotment	791.46			791.46	791.46		791.46			791.46 III 5
3360 Other Intergov Revenue	221.60	18	221.60	0.00	0.00		0.00			0.00
3370 Other Misc. Grants	9,901.47	18	5,300.00	4,601.47	4,601.47		4,601.47			4,601.47 III 2
Total Intergovernmental Revenue	67,223.17			76,608.48	76,608.48	0.00	76,608.48			76,608.48
Charges for Services										
3410 General Government (Rent)	195.00			195.00	195.00		195.00			195.00 II 3.4
3413 Zoning & Subdivision Fees	3,385.68			3,385.68	3,385.68		3,385.68			3,385.68 II 4.4
3422 Fire Dept. Reimb.	8,924.50			8,924.50	8,924.50		8,924.50			8,924.50 II 5
3423 Fire Dept Income-Other	2,061.50			2,061.50	2,061.50		2,061.50			2,061.50 II 5
3470 Parks & Public Property	327.01			327.01	327.01		327.01			327.01 II 8.1
3480 Cemeteries (Burial Plots)	10,725.00			10,725.00	10,725.00		10,725.00			10,725.00 II 3.5
3481 Cemeteries (Burial Fees)	5,355.00			5,355.00	5,355.00		5,355.00			5,355.00 II 3.5
3482 Monument Permits	100.00			100.00	100.00		100.00			100.00 II 3.5
3490 Other Charges for Service	182.24			182.24	182.24		182.24			182.24 II 5
3495 Park Impact Fees	0.00			0.00	0.00		0.00			0.00
Total Charges for Services (General)	31,255.93			31,255.93	31,255.93	0.00	31,255.93			31,255.93
Fines & Forfeitures										
3510 Fines	53.71			53.71	53.71		53.71			53.71 II 7.1
Total Fines & Forfeitures	53.71			53.71	53.71	0.00	53.71			53.71

Honeyville City
Balance Sheet
As of June 30, 2005

	Trial Balance Adjustments				Final TB					Wide Financial Statements		Final TB	
	June 30, 2005	PALJE#	Debit	Credit	June 30, 2005	Water Fund	General Fund	Capital Projects Fund	PROOF Column	GWALJE#	Debit	Credit	June 30, 2005
Miscellaneous Revenue													
3610 Interest Income	29,337.27	14, 1	19,573.00	310.06	10,074.33		10,074.33		10,074.33				10,074.33 II 9
Capital Projects Interest Income	0.00	14		16,082.00	16,082.00			16,082.00	16,082.00				16,082.00 II 9
Impact Fees park & rec	0.00				0.00		0.00		0.00				0.00 II 9
Donations	0.00				0.00		0.00		0.00				0.00 II 9
3630 Donata A Tree	0.00				0.00		0.00		0.00				0.00 II 9
3680 Other Financing	1,472.71	1, 2, 18	627.06	5,521.60	6,367.25		6,367.25		6,367.25				6,367.25 II 11
Total Miscellaneous Revenue	30,809.98				32,523.58	0.00	16,441.58	16,082.00	32,523.58				32,523.58
Total Income	501,962.10				537,739.06	170,302.28	351,354.78	16,082.00	537,739.06				540,863.25

Page 5 of 6

Honeyville City
Balance Sheet
As of June 30, 2005

	Trial Balance Adjustments			Final TB				PROOF				Wide Financial Statements			Final TB	
	June 30, 2005	PAY#	Debit	Credit	June 30, 2005	Water Fund	General Fund	Capital Projects Fund	Column	GWAJ#	Debit	Credit	June 30, 2005		June 30, 2005	
Highways & Public Imp																
4410 Highway/Street Lighting	7,001.15				7,001.15		7,001.15		7,001.15				7,001.15	IV 4.4	7,001.15	IV 4.4
4415 Class "C" Road Expend.	73,427.51	13, 12	70.95	66.14	73,432.32		73,432.32		73,432.32				73,432.32	IV 4.1	73,432.32	IV 4.1
Depreciation expense	0.00				0.00		0.00		0.00				0.00		2,184.58	
4430 Street Wages	4,892.49				4,892.49		4,892.49		4,892.49				4,892.49	IV 4.1	4,892.49	IV 4.1
Total Highway & Public Imp	85,321.15				85,325.96	0.00	85,325.96	0.00	85,325.96				85,325.96		87,510.54	
Parks																
4500 Park Expenditures	9,113.69	13, 19, 12	5,443.74	66.15	14,491.28		14,491.28		14,491.28				14,491.28	51	9,791.28	IV 3.7
Depreciation expense	0.00				0.00		0.00		0.00				0.00		3,869.33	
4505 Park Wages	2,763.02				2,763.02		2,763.02		2,763.02				2,763.02	50	2,763.02	IV 3.7
4580 Trees	0.00				0.00		0.00		0.00				0.00		0.00	
Total Parks	11,876.71				17,254.30	0.00	17,254.30	0.00	17,254.30				17,254.30		16,423.63	
Community Planning																
4180 Community Planning	0.00				0.00		0.00		0.00				0.00		0.00	
Total Community Planning	0.00				0.00	0.00	0.00	0.00	0.00				0.00		0.00	
Cemeteries																
4590 Cemetery Expenditures	10,483.88	13, 12	748.88	132.30	11,100.46		11,100.46		11,100.46				11,100.46	51	4,700.00	
4595 Cemetery Wages	4,976.52				4,976.52		4,976.52		4,976.52				4,976.52		6,400.46	IV 3.11
Total Cemeteries	15,460.40				16,076.98	0.00	16,076.98	0.00	16,076.98				16,076.98		11,378.98	
Capital Projects (Out)																
5025 Fire Truck	0.00				0.00		0.00		0.00				0.00		0.00	
5040 Rodeo Grounds	5,057.30	19		5,057.30	0.00		0.00		0.00				0.00		0.00	
Total Capital Projects (Out)	5,057.30				0.00		0.00	0.00	0.00				0.00		0.00	
Total Expense	371,862.93				411,881.49	126,490.05	285,391.44	0.00	411,881.49						430,346.74	
Transfers In		21			220,000.00			220,000.00								
Transfers Out		21	220,000.00		-220,000.00		-220,000.00									
Net Income	130,098.17				126,867.57	43,812.23	-154,038.66	238,082.00	126,867.57						110,516.51	
Total Adjustments			260,211.11	260,208.11											102,919.54	102,919.54